ASCS BACKGROUND INFORMATION

United States Department of Agriculture

Agricultural Stabilization and Conservation Service

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LOAN, PURCHASE AND PAYMENT PROGRAMS

Agricultural commodity price support loan, purchase and payment programs help to assure orderly marketing and an adequate supply of food, animal feed, and natural fibers by guaranteeing that cooperating farmers receive interim financing and no less than the support price established for a particular commodity.

Commodities designated for price support are those that are critical to a stable agricultural economy, are subject to significant fluctuations in supply and demand, and for which price support will provide for a more orderly marketing by producers.

Loan, purchase and payment programs are funded by the Commodity Credit Corporation (CCC), a government-owned entity. Support operations are conducted for the CCC by the Agricultural Stabilization and Conservation Service (ASCS) through State, county and community farmer committees, county ASCS offices, and commodity and management field offices. (See BI No. 1, The Agricultural Stabilization and Conservation Service; also, BI No. 4, The Commodity Credit Corporation and Its Activities.)

Loan, purchase and payment programs for certain commodities are conducted in conjunction with production adjustment programs. (See BI No. 6, Production Adjustment Programs.)

Legislative Authorities

Price support programs for specified commodities were first authorized by the Agricultural Adjustment Acts of 1933 and 1938. Current programs are carried out under the following authorities, as amended: The CCC Charter Act, the Agricultural Adjustment Act of 1938, the Agricultural Act of 1949, the National Wool Act of 1954, the Agricultural Act of 1970,

the Agriculture and Consumer Protection Act of 1973, the Rice Production Act of 1975, and the Food and Agriculture Act of 1977.

Program Eligibility

To be eligible for price support, farmers must comply with the program provisions applicable to the commodity produced. The Secretary of Agriculture has discretionary authority under law to determine whether certain provisions should be implemented. Program provisions for each commodity are discussed in detail in the ASCS Commodity Fact Sheet for that commodity. Farmers apply for program participation through ASCS county offices.

Commodities Supported

Price support is required or authorized by law for wheat, corn, peanuts, rice, tobacco, wool, mohair, upland and extra long staple cotton, honey, barley, oats, rye, sorghums, milk and its products, flax, soybeans, gum naval stores (rosin), sugarbeets, and sugarcane. Support may be through loans, purchases, payments, or a combination of these methods.

The Secretary of Agriculture may modify or suspend support prices and eligibility requirements for program participation for certain commodities. The Secretary also issues regulations to carry out the programs.

Support Levels

For many commodities, Congress has established a specific parity level at which, or a range within which, loan, purchase and payment rates are set.

The parity price for an agricultural commodity is the dollars-and-cents price, determined by formula, that will give such commodity the same buying power, in terms of goods and services bought by farmers and certain costs of their farming operations, that such commodity had in the 1910-14 base period, with an adjustment based on the relationship of the commodity's most recent 10-year average farm price to the general level of prices for all farm commodities during such 10-year period.

Most announced loan and purchase levels are national averages, representing the average of all classes and grades of the commodity produced for market by all farmers. National average loan and purchase rates are converted into support prices for grades and qualities at specified locations. Premiums and discounts are established for qualities other than the base quality. These are added to or subtracted from the basic level at each location.

Commodity Loans

The CCC makes commodity loans to eligible farmers, sugar processors,

or to or through cooperative marketing associations, on the security of the stored commodities. Stocks may be stored on the farm in approved structures or off the farm in approved commercial warehouses.

Commodity loans are nonrecourse. The commodities serve as collateral for the loan. If a loan is made directly to a farmer, the farmer may repay the loan, plus accured interest, computed on a daily basis, at any time prior to loan maturity. Farmers who cannot profitably repay a loan deliver the commodity to the CCC if it is farm-stored, or the CCC takes title to the commodity if it is in warehouse storage, to satisfy the loan and interest.

Loans on tobacco, peanuts and gum naval stores are made through producer associations, and on barley, cotton, corn, oats, rye, sorghum, soybeans, wheat, rice and honey either directly to farmers or to cooperatives on behalf of their members. In the case of producer association or cooperative loans, the commodity of all producers is pooled. The association markets the commodity held as collateral and either repays the amount due to the CCC or remits the sales proceeds to apply on the loan. A cooperative must redeem the commodity before selling it. If the sales by the association or cooperative return a profit over advances to growers, charges and interest, the proceeds are pro-rated to growers participating in the pool.

Producers of sugarbeets and sugarcane are afforded price support through loans made to processors of refined beet sugar or raw cane sugar. Processors, in order to qualify for loans, must guarantee to pay producers who deliver sugarbeets or sugarcane for processing no less than the specified price support levels for those commodities. If market prices are not sufficient for processors to redeem the loans on maturity, CCC takes title to the commodity, in storage, in full satisfaction of the loan.

Purchases

The CCC purchases, as authorized or required by legislation, honey, rice, peanuts, soybeans, dairy products, flaxseed, oats, rye, corn, sorghum, barley, and wheat.

Commodities purchased are sold for domestic or export use, donated through Federal, State and private agencies for use in child nutrition programs and in the assistance of needy persons in the United States, and transferred for donation through U.S. welfare and intergovernmental organizations for foreign assistance programs. Dairy products are also transferred to the Veterans Administration for use in hospitals and to the Secretary of the Army for use by the Department of Defense. Grains may be donated to aid livestock producers in declared acute distress and major disaster areas, or sold at reduced prices to livestock producers in areas where feed is short due to a natural disaster.

A producer may apply at the ASCS county office for the option of selling to the CCC an approximate quantity of an eligible commodity at a settlement value established by government regulation, or the government may

seek bids from producers for the purchase of commodities required for distribution programs.

Payments

Farmers may receive payments under the extra long staple cotton, feed grain, mohair, rice, upland cotton, wheat and wool programs. The feed grains include corn, sorghum, and, if designated by the Secretary of Agriculture, barley and oats.

Payments include target price (or deficiency), disaster, incentive, and indemnity. The Secretary of Agriculture may authorize payments to producers of specified crops for diverting land from crop production in order to maintain a reasonable balance between supply and demand.

Target Prices (Deficiency Payments)

Target prices are established for wheat, feed grains, upland cotton, and rice. Payments to eligible producers of wheat, feed grains, and upland cotton are based on the producer's share of the national program acreage, and to eligible producers of rice based on their share of the national acreage allotment. The national program acreage in each case represents the number of harvested acres needed to meet domestic and export use and attain an acceptable level of carryover stocks. No payment will be made as long as the average market price received by producers during the first five months of the marketing year--or, in the case of upland cotton, during the calendar year in which the crop is planted--remains at or above the target price level.

If the national average market price for the stated period drops below the target level, a payment will be made to eligible producers equal to the difference between the target price and the higher of the loan level or the average market price.

Target prices are adjusted each year to reflect changes in costs of production (seed, fertilizer and other variable costs, machinery ownership, and general farm overhead costs), and yield.

Payments under the wheat, feed grains, upland cotton and rice programs combined cannot exceed $50,000 for each of the 1980 and 1981 crops. This limitation does not apply to CCC purchases, commodity loans, disaster payments, or payments for public access for recreation.

Disaster Payments

Disaster payments are authorized for wheat, feed grains, upland cotton, and rice, if an eligible producer of these crops is prevented from planting any portion of the farm's acreage to these crops or other nonconserving crops because of drought, flood, or other natural disaster or condition beyond the producer's control, or, if the total quantity of the eligible

crop harvested on any farm is less than the potential production obtained by multiplying 60 percent for feed grains and wheat or 75 percent for cotton and rice of the farm program yield times the acreage planted for harvest. The low-yield payment calculation is 50 percent for feed grains and wheat and 33 1/3 percent for cotton and rice of the target price for the deficit in production below the specified level. For prevented plantings, the payment calculation is based on 75 percent of the farm program yield times the eligible acreage times 33 1/3 percent of the target price.

To be eligible for disaster payment on any crop, a producer must comply with the program requirements for all crops which the producer plants.

Incentive Payments

Price support is provided for shorn wool and mohair, and on sales of unshorn lambs, through incentive payments to producers. Payments are based on the percent needed to bring the average return received by all producers up to the support level.

To determine individual payments, this percentage is applied to the producer's net proceeds from the sale of wool or mohair. Under this method the producer who gets a higher market price also gets a higher incentive payment -- encouraging producers to improve the quality and marketing of their wool and mohair.

Indemnity Payments

Under the dairy indemnity payment program farmers are eligible for indemnity payments for milk removed from the market, or for cows producing such milk, because of contamination with pesticides or other harmful substances. The dairy farmer must not have been responsible for the contamination. Payments are authorized only if other legal recourse is not available to the farmer.

Indemnity payments are also authorized under the Beekeeper Indemnity Payment Program to beekeepers who through no fault of their own suffer losses of honeybees as a result of the use of pesticides near the property where the beehives were located.

Grain and Rice Reserve Programs

The Food and Agriculture Act of 1977 provides for a farmer-owned grain reserve program for wheat, corn, barley, sorghum and oats. To participate, farmers or cooperatives must put the eligible crop under a CCC price support loan. Drawing upon earlier legislation, the Secretary of Agriculture approved a rice reserve program applicable to 1978-crop rice, with participation limited to producers holding rice allotments or to cooperative marketing associations acting on their behalf, for rice under price support loan.

Grain or rice placed in the reserves is subject to the same storage requirements as grain in the regular price support loan program. It can be stored either on the farm or in commercial warehouses. Producers are permitted to rotate their reserve stocks to maintain quality. (See "The Farmer-Owned Grain Reserve Program," USDA/ASCS leaflet dated February 1978.)

Farm Facility Loans

ASCS offers farm facility loans to help farmers buy, build, or remodel on-farm storage facilities and to obtain drying and handling equipment. Eligible farmers are those who grow one or more of the following crops: barley, corn, dry edible beans, flaxseed, sorghum, oats, peanuts, rice, rye, soybeans, sunflower seed, wheat, and high-moisture forage. (See "Farm Facility Loans," USDA/ASCS leaflet dated June 1978.)

For current provisions of loan, purchase and payment programs, see the ASCS Commodity Fact Sheet for the particular program.